# Cefic Position Paper on the European Commission's 2040 Climate Target proposal

The European chemical industry supports the objective to reach carbon neutrality by 2050 by stimulating investments into the European economy. For our industry, such a transition will require a **substantial increase of both CAPEX and OPEX**, coupled with a **massive scaling up of energy and carbon infrastructure** and the **availability of internationally cost-competitive energy and feedstock**.

Given the long investment cycles, investments in the chemical industry would need to happen now, when our industry faces one **of the most severe economic downturns ever, with the rate of closures reached in 2023 and 2024 being 10 times[1] the historical average**. The downturn is continuing with no current indication of improvement and will likely have long-lasting detrimental effects on the EU industrial base.

The transformation of the chemical industry can only occur if the necessary decarbonisation production factors are available in sufficient quantities at competitive prices. The absence of these factors, coupled with the ETS EUA reduction trajectory, set to reach zero in 2039, is causing significant strain to the industry.

With this in mind, the proposed 2040 climate target falls short in proposing concrete, quantifiable and time-bound measures to create market demand for low-carbon and circular products, ensure availability of cost-competitive energy, deliver critical energy and carbon infrastructure, and effectively protect industry from the risk of carbon leakage globally.

Therefore, discussions on the proposed 2040 climate target must be coupled with **tangible actions** by EU Institutions and Member States, **clearly defined enabling measures**, as mentioned below, reflecting social and economic factors, milestones to track progress, and KPIs to measure effectiveness, with the aim to make the transition realistic, economically viable, and technologically feasible.

Should these enabling conditions not be fulfilled, the Commission shall create an adjustment mechanism – a 'safety net' for industry – which allows for necessary and pragmatic adjustments to Regulations outside of the prescribed revision periods, if required. Such adjustment mechanism shall be proposed by the Commission as soon as this Regulation enters into force, through a legislative proposal setting out a clear and legally binding framework.

**Key enabling conditions to be preliminarily met:**

**a) <u>Market Creation for Low-Carbon and Circular Products</u>**

Companies need a credible and sustained demand signal to invest in new and disruptive production processes. However, customers today are not willing to pay the premium which inherently comes with low-carbon and circular products.

The EU must implement demand-pull measures for low-carbon and circular products swiftly, efficiently and at scale to accelerate market transformation. Without such market-forming measures, there will hardly be any viable business case for investments, and emissions reductions will be met through the unintended consequence of European deindustrialization.

[1] The Competitiveness of the European Chemical Industry. A joint study by Cefic and Advancy, January 2025.

**Proposals:**

- **Present a comprehensive strategy and measures to swiftly and efficiently create market demand for low-carbon and circular products at scale in the EU by end-2025.**
- **Table the related legislative and non-legislative proposals in 2026, with a view of having a functioning market for low-carbon and circular products by 2030, at the latest.**

**b) Availability of Cost-Competitive Energy and Feedstock**

The transition hinges on access to cost-competitive renewable and low-carbon energy and circular feedstock[2]. Without these, industry cannot keep running its current processes, let alone setting up new low-carbon projects. The lack of internationally competitive energy prices and availability of low-carbon energy with a suitable supply profile put companies operating in the EU at international competitive disadvantage. Moreover, access to cost-competitive circular feedstock is needed to ensure production and strategic autonomy aligning climate and industrial policy.

**Proposals:**

- **Define by end-2025 a comprehensive technology-neutral strategy accompanied by a comprehensive policy tool set with concrete actions to deliver internationally cost-competitive renewable and low-carbon energy.**
- **Present an EU vision on cost-competitive circular carbon feedstock.**

**c) Deployment of Energy and Carbon Infrastructure**

Companies wanting to invest in new low-carbon projects to reduce emissions increasingly face the lack of additional capacity available to get the renewable and low-carbon energy they need to run processes. Ensuring the timely deployment of essential infrastructure, such as power grids, hydrogen pipelines, and $CO_2$ transport networks and storage is key. Moreover, permitting processes for new infrastructure should be significantly accelerated considering that current timelines are incompatible with the urgency of the 2040 climate target.

**Proposals:**

- **Identify by end-2025 essential electricity, hydrogen, $CO_2$ and storage infrastructure needed.**
- **Define timelines, milestones and progress reports with Member States on the realisation of such infrastructure.**

**d) Global Competitiveness, EU ETS and Carbon Leakage Protection**

As currently designed, the post-2030 EU ETS framework expects a pace for emission reductions in industry that is not matched by the speed of deployment of the above-mentioned preconditions. This unfeasible ETS trajectory puts a strain on industry. Moreover, the current framework fails to adequately address the sector's need for an immediate robust carbon leakage protection.

[2] Circular carbon feedstock is all carbon not derived from a virgin fossil feedstock, and which is currently present in the biosphere, atmosphere and anthroposphere. This includes biomass, waste and recycled materials, $CO_2$ captured from industrial processes or from the atmosphere, even if they originally come from a fossil source. See Cefic position paper on the topic.

In addition, the impact assessment underpinning the 2040 climate target clearly indicates a mismatch between industrial residual emissions and domestic permanent carbon removals[3]. Domestic permanent carbon removals alone are therefore insufficient to compensate for residual emissions beyond 2030 in the EU ETS. Further flexibility is needed to compensate for such emissions also through high-quality international credits.

Specifically on international crediting, we welcome an annual use of sufficient high-quality international carbon credits, including international carbon removal credits with the appropriate safeguards, under Article 6 of the Paris Agreement, as a flexibility tool to meet the EU targets. We encourage the European Commission to swiftly provide clarity on criteria, timing and use of such credits.

At the same time, we disagree with excluding ETS installations from accessing these credits for compliance purposes. If the accounting system is robust enough to account for non-ETS sectors, there is no reason why that should not apply to ETS sectors as well.

EU policy should not be technology-prescriptive but support all emissions reduction solutions with a view of strengthening its global competitiveness.

**Proposals:**

- **Develop a robust and effective anti-carbon leakage framework and a realistic post-2030 EU ETS framework with realistic timelines reflecting maturity and deployment costs of low-carbon technologies, and an adjusted cap, taking into consideration also progresses on the above-mentioned preconditions.**
- **Allow liquidity in the carbon market by allowing, inter-alia, a sufficient annual percentage of high-quality international carbon credits for compliance with the EU ETS as soon as possible.**

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About Cefic

Cefic, the European Chemical Industry Council, is the forum of large, medium and small chemical

companies across Europe, accounting for 1.2 million jobs and 13% of world chemicals production.

On behalf of its members, Cefic's experts share industry insights and trends, and offer views and

input to the EU agenda. Cefic also provides members with services, like guidance and trainings on

regulatory and technical matters, while also contributing to the advancement of scientific knowledge.

[3] Even in the most ambitious and optimistic scenarios (which include, inter alia, exponential scaling up of Carbon Capture and Storage (CCS) infrastructure and Direct Air Capture (DAC), domestic permanent removals would be in the range of 50-75 Mt by 2040, against an amount of industrial residual emissions in the range of about 89-181 Mt $CO_2$.